

FINAL TERMS

07 September 2005

Kaupthing Bank hf.
Issue of EUR10,000,000 Cumulative Callable Inverse Floater Notes due September 2012
under the EUR 12,000,000,000
Euro Medium Term Note Programme

PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 2nd September, 2005 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB.

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|----|-----------------------------------|---|
| 1. | Issuer: | Kaupthing Bank hf. |
| | (i) Series Number: | 1 |
| | (ii) Tranche Number: | 1 |
| 3. | Specified Currency or Currencies: | Euros ("EUR") |
| 4. | Aggregate Nominal Amount: | |
| | (i) Series: | EUR 10,000,000 |
| | (ii) Tranche: | EUR 10,000,000 |
| 5. | Issue Price: | 100.00 per cent of the aggregate Nominal Amount |
| 6. | Specified Denominations: | EUR 10,000 |
| 7. | (i) Issue Date: | 07 September 2005 |
| | (ii) Interest Commencement Date: | 07 September 2005 |
| 8. | Maturity Date: | 07 September 2012, subject to adjustment in accordance with the Following Business Day Convention |

9. Interest Basis: Fixed Rate to Floating Rate Interest as set out below:
- In respect of each Interest Period during the period from and including the Issue Date to but excluding the Interest Payment Date falling on or nearest to 7 September 2006 (such period, the “Fixed Rate Period”), the Notes shall be Fixed Rate Notes and the payment of interest shall be subject to the provisions set out under “Fixed Rate Note Provisions” below.
- In respect of each Interest Period during the period from and including the Interest Payment Date falling on or nearest to 7 September 2006 to but excluding the Maturity Date (such period, the “Floating Rate Period”), the Notes shall be Floating Rate Notes and the payment of interest shall be subject to the provisions set out under “Floating Rate Note Provisions” below.
10. Redemption/Payment Basis: Redemption at par
11. Change of Interest Basis or Redemption/Payment Basis: See Paragraph 9 above
12. Put/Call Options: Issuer Call
(further particulars specified in Item 20 below)
13. Status of the Notes: Senior
14. Method of distribution: Non-syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Note Provisions** Applicable in respect of the Fixed Rate Period only
- (i) Rate(s) of Interest: 5.80 per cent. per annum.
- (ii) Interest Payment Date(s): Interest is payable quarterly in arrear on 7 December 2005, 7 March 2006, 7 June 2006 and 7 September 2006, subject to adjustment in accordance with the Following Business Day Convention.
- (iii) Fixed Coupon Amount(s): EUR145 per Specified Denomination payable on each Interest Payment Date
- (iv) Broken Amount(s): Not Applicable
- (v) Day Count Fraction: 30/360 (unadjusted)
- (vi) Determination Date(s): Not Applicable

- (vi) Other terms relating to the method of calculating interest for Fixed Rate Notes: Not Applicable
16. **Floating Rate Note Provisions** Applicable in respect of the Floating Rate Period only
- (i) Specified Period(s)/Specified Interest Payment Dates: Interest is payable quarterly in arrear on 7 March, 7 June, 7 September and 7 December in each year, commencing on 7 December 2006, subject to adjustment in accordance with the Business Day Convention.
- (ii) Business Day Convention: Following Business Day Convention
- (iii) Additional Business Centre(s): London and TARGET
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: The Rate of Interest shall be determined by the Calculation Agent quarterly in arrear in the following manner:
- a) For the period from and including the Interest Payment Date falling on or nearest to 7 September 2006 to but excluding the Interest Payment Date falling on or nearest to 7 September 2007, the annual Rate of Interest shall be: $1.40 \times$ (The annual Rate of Interest for the immediately preceding Interest Period less the Reference Rate) per annum.
 - b) For the period from and including the Interest Payment Date falling on or nearest to 7 September 2007 to but excluding the Interest Payment Date falling on or nearest to 7 September 2008, the annual Rate of Interest shall be: $1.50 \times$ (The annual Rate of Interest for the immediately preceding Interest Period less the Reference Rate) per annum.
 - c) For the period from and including the Interest Payment Date falling on or nearest to 7 September 2008 to but excluding the Interest Payment Date falling on or nearest to 7 September 2009, the annual Rate of Interest shall be: $1.60 \times$ (The annual Rate of Interest for the immediately preceding Interest Period less the Reference Rate) per annum.

- d) For the period from and including the Interest Payment Date falling on or nearest to 7 September 2009 to but excluding the Interest Payment Date falling on or nearest to 7 September 2010, the annual Rate of Interest shall be: 1.70 x (The annual Rate of Interest for the immediately preceding Interest Period less the Reference Rate) per annum.
- e) For the period from and including the Interest Payment Date falling on or nearest to 7 September 2010 to but excluding the Interest Payment Date falling on or nearest to 7 September 2011, the annual Rate of Interest shall be: 1.80 x (The annual Rate of Interest for the immediately preceding Interest Period less the Reference Rate) per annum; and
- f) For the period from and including the Interest Payment Date falling on or nearest to 7 September 2011 to but excluding the Maturity Date, the annual Rate of Interest shall be: 1.90 x (The annual Rate of Interest for the immediately preceding Interest Period less the Reference Rate) per annum.

(v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):

UBS AG, London Branch

(vi) Screen Rate Determination:

Applicable

– Reference Rate:

3 Month EURIBOR

– Interest Determination Date(s):

At 11am Brussels time five TARGET Business Days prior to the start of the Interest Period

– Relevant Screen Page:

Moneyline Telerate 248

(vii) ISDA Determination:

Not Applicable

(viii) Margin(s):

Not Applicable

(ix) Minimum Rate of Interest:

Zero per cent.

(x) Maximum Rate of Interest:

10.00 per cent.

(xi) Day Count Fraction:

30/360 (unadjusted)

- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: Not Applicable
17. **Zero Coupon Note Provisions** Not Applicable
18. **Index Linked Interest Note Provisions** Not Applicable
19. **Dual Currency Interest Note Provisions** Not Applicable

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call Applicable
- The Issuer may redeem the Notes, in whole but not in part, on each Interest Payment Date commencing on the Interest Payment Date falling on or nearest to 7 September 2006, upon giving written notice at least five (5) business days prior to the Interest Payment Date to the Programme's Issuing and Paying Agent. The note holder will be entitled to any interest payments due on the Optional Redemption Date.
21. Investor Put Not Applicable
22. Final Redemption Amount of each Note EUR 10,000 per Note of EUR 10,000 Specified Denomination
23. Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(f)): As set out in the Conditions

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event
25. Additional Financial Centre(s) or other special provisions relating to Payment Dates: For the avoidance of doubt the Financial Centres are London and TARGET.

26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): No
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and, consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: Not Applicable
28. Details relating to Instalment Notes:
- (i) Instalment Amount(s): Not Applicable
- (ii) Instalment Date(s): Not Applicable
29. Redenomination applicable: Redenomination not applicable
30. Other final terms: Not Applicable

DISTRIBUTION

31. (i) If syndicated, names and addresses of Managers and underwriting commitments: Not Applicable
- (ii) Stabilising Manager (if any): Not Applicable
32. If non-syndicated, name and address of relevant Dealer: UBS Limited
33. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: TEFRA D
34. Additional selling restrictions: Europe:

For EEA jurisdictions (EU member states plus Norway, Iceland and Liechtenstein) that have implemented the EU Prospectus Directive, the Final Terms and Base Prospectus for these Notes DO NOT QUALIFY as a prospectus published in accordance with the requirements of the EU Prospectus Directive. Unless and until a prospectus has been published in accordance with the requirements of the EU Directive, these Notes may not be offered or sold other than 1) in minimum denominations of, or total consideration per investor of at least, EUR 50,000 (or equivalent in other currencies) or 2) only to Qualified Investors; and/or (aggregated for all distributors) to less than 100 offerees that are not Qualified Investors per EEA jurisdiction. A "Qualified

Investor" is a legal entity that (i) is authorised or regulated to operate in the financial markets or has the sole purpose to invest in securities; or (ii) meets two of the following three criteria (as shown in its last annual or consolidated accounts): (a) an average number of at least 250 employees during the last financial year; (b) a total balance sheet of more than EUR 43,000,000; and (c) an annual net turnover of more than EUR 50,000,000. For EEA jurisdictions that have not implemented the EU Prospectus Directive, sales must be in compliance with the law of that jurisdiction.

Hong Kong:

The Notes have not been offered and sold, and each purchaser represents and agrees that it will not offer and sell the Notes in Hong Kong, by means of any document, other than to persons whose ordinary business is to buy and sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong or to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance, or in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance.

In relation to the issue of the Notes, each purchaser represents and agrees that it has not issued and will not issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance and any rules made thereunder.

Singapore:

These Final Terms and the Base Prospectus relating to the Notes have not been registered as a prospectus with the Monetary Authority of Singapore (the "MAS") under the Securities and Futures Act (Cap. 289) of Singapore (the "Securities and Futures Act").

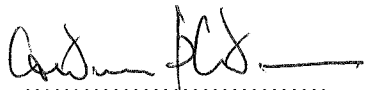
Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may these Final Terms and the Base Prospectus or any other document or material in


connection with the offer or sale, or invitation for subscription or purchase of such Notes be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other person falling within Section 274 of the Securities and Futures Act, (2) to a sophisticated investor (as defined in Section 275 of the Securities and Futures Act) and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (3) otherwise than pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

By: 
.....
Duly authorized
Guomundur P. Guomundsson
Head of Derivatives


.....
KAUPTHING BANK HF.
Legal Department

PART B – OTHER INFORMATION

LISTING

None

OPERATIONAL INFORMATION

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| (i) ISIN Code: | XS0227526935 |
| (ii) Common Code: | 022752693 |
| (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): | Not Applicable |
| (iv) Delivery: | Delivery against payment |